

City of Washington

**Independent Auditor's Report
Financial Statements and Supplementary Information
Independent Auditor's Report on Compliance
Schedule of Findings and Questioned Costs**

June 30, 2009

C o n t e n t s

	Page
Officials	1
Independent Auditor's Report	2 - 3
Basic Financial Statements:	
Government-wide Financial Statement:	
Statement of Activities and Net Assets - Cash Basis	4
Governmental Fund Financial Statement:	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances - Governmental Funds	5
Reconciliation of the Statement of Cash Receipts, Disbursements and Changes in Cash Balances to the Statement of Activities and Net Assets - Governmental Funds	6
Proprietary Fund Financial Statement:	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances - Proprietary Funds	7
Reconciliation of the Statement of Cash Receipts, Disbursements and Changes in Cash Balances to the Statement of Activities and Net Assets - Proprietary Funds	8
Notes to Financial Statements	9 - 17
Required Supplementary Information	
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds	18
Notes to Required Supplementary Information - Budgetary Reporting	19
Other Supplementary Information	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances - Nonmajor Governmental Funds	20
Statement of Indebtedness	21
Bond Maturities	22
Schedule of Receipts by Source and Disbursements by Function - All Governmental Funds	23
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	24 - 25
Schedule of Findings and Questioned Costs	26 - 30

City of Washington

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Sandra Johnson	Mayor	January 2012
Bob Shepard	Mayor Pro-tem	January 2012
Bob Shepard	Council Member 1st Ward	January 2012
Russ Zieglowsky	Council Member 2nd Ward	January 2010
Mike Roth	Council Member 3rd Ward	January 2012
Fred Stark	Council Member 4th Ward	January 2010
Merle Hagie	Council Member at Large	January 2010
Karen Wilson-Johnson	Council Member at Large	January 2010
David Plyman	City Administrator	Indefinite
Illa Earnest	Deputy City Clerk	Indefinite
Craig Arbuckle	City Attorney	Indefinite



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Independent Auditor's Report

Honorable Mayor and Members of City Council
City of Washington, Iowa

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Washington, Iowa (City), as of and for the year ended June 30, 2009, which collectively comprise the basic financial statements of the City's primary government as listed in the table of contents. These financial statements are the responsibility of the City of Washington's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

The financial statements referred to above include only the primary government of the City, which consists of all funds, organizations, institutions, agencies, departments and offices that comprise the City's legal entity. The financial statements do not include financial data for the City's legally separate component unit, which accounting principles generally accepted in the United States of America require to be reported with the financial data of the City's primary government. As a result, the primary government financial statements do not purport to, and do not, present fairly the cash basis financial position of the reporting entity of the City, as of June 30, 2009, and the changes in its cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City as of June 30, 2009, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 4, 2010 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Budgetary comparison information on pages 18 and 19 is not a required part of the financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

The City has not presented Management's Discussion and Analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City's primary government financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the year ended June 30, 2008 and 2007 (which are not presented herein) and expressed an unqualified opinion on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. The financial statements for the four years ended June 30, 2006 (none of which is presented herein) were audited by another auditor who expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. Other supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

CPA Associates PC

February 4, 2010

FINANCIAL STATEMENTS

City of Washington
Statement of Activities and Net Assets - Cash Basis
As of and for the Year Ended June 30, 2009

	Program Receipts				Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
	Disbursements	Charges for Service	Operating Grants Contributions, and Restricted Interest	Capital Grants Contributions and Restricted Interest	Governmental Activities	Business- Type Activities	Total
Functions / Programs:							
Governmental activities:							
Public safety	\$ 1,822,455	\$ 2,897	\$ 47,134	\$ -	\$ (1,772,424)	\$ -	\$ (1,772,424)
Public works	1,009,014	453,124	584,688	-	28,798	-	28,798
Culture and recreation	936,866	198,066	2,333,694	-	1,594,894	-	1,594,894
Community and economic development	63,371	57,402	-	-	(5,969)	-	(5,969)
General government	1,010,660	80,825	551,811	-	(378,024)	-	(378,024)
Debt service	949,377	-	-	-	(949,377)	-	(949,377)
Capital projects	<u>6,275,982</u>	<u>-</u>	<u>36,737</u>	<u>-</u>	<u>(6,239,245)</u>	<u>-</u>	<u>(6,239,245)</u>
Total governmental activities	<u>12,067,725</u>	<u>792,314</u>	<u>3,554,064</u>	<u>-</u>	<u>(7,721,347)</u>	<u>-</u>	<u>(7,721,347)</u>
Business type activities:							
Water	1,131,021	953,540	-	-	-	(177,481)	(177,481)
Sewer	805,343	993,438	-	-	-	188,095	188,095
Sanitation	<u>282,741</u>	<u>254,410</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(28,331)</u>	<u>(28,331)</u>
Total business type activities	<u>2,219,105</u>	<u>2,201,388</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(17,717)</u>	<u>(17,717)</u>
Total	<u>\$ 14,286,830</u>	<u>\$ 2,993,702</u>	<u>\$ 3,554,064</u>	<u>\$ -</u>	<u>(7,721,347)</u>	<u>(17,717)</u>	<u>(7,739,064)</u>
General Receipts:							
Property tax levied for:							
General purposes					1,556,652	-	1,556,652
Tax increment financing					209,724	-	209,724
Debt service					848,493	-	848,493
Local option sales tax					612,723	-	612,723
Unrestricted investment earnings					16,943	-	16,943
Bond proceeds					3,466,750	-	3,466,750
Transfers					56,833	(56,833)	-
Miscellaneous					<u>534,299</u>	<u>37,130</u>	<u>571,429</u>
Total general receipts and transfers					<u>7,302,417</u>	<u>(19,703)</u>	<u>7,282,714</u>
Change in cash basis net assets					(418,930)	(37,420)	(456,350)
Cash basis net assets beginning of year					<u>6,194,972</u>	<u>870,464</u>	<u>7,065,436</u>
Cash basis net assets end of year					<u>\$ 5,776,042</u>	<u>\$ 833,044</u>	<u>\$ 6,609,086</u>
Cash Basis Net Assets							
Restricted:							
Streets					\$ 754,814	\$ -	\$ 754,814
Other purposes					5,481,541	-	5,481,541
Unrestricted					<u>(460,313)</u>	<u>833,044</u>	<u>372,731</u>
Total cash basis net assets					<u>\$ 5,776,042</u>	<u>\$ 833,044</u>	<u>\$ 6,609,086</u>

See notes to financial statements.

City of Washington
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Governmental Funds
As of and for the Year Ended June 30, 2009

	<u>Special Revenue</u>					Other	
	<u>General</u>	<u>Road Use</u>	<u>Urban</u>	<u>Debt</u>	<u>Capital</u>	<u>Nonmajor</u>	<u>Total</u>
			<u>Renewal</u>	<u>Service</u>	<u>Projects</u>	<u>Governmental</u>	
Receipts:							
Property tax	\$ 1,361,914	\$ -	\$ -	\$ 848,493	\$ -	\$ 194,738	\$ 2,405,145
Tax increment financing	-	-	209,724	-	-	-	209,724
Other taxes	612,723	-	-	-	-	-	612,723
Use of money and property	80,090	-	-	189	36,737	23,140	140,156
License and permits	130,196	-	-	-	-	-	130,196
Intergovernmental	129,375	584,688	-	-	467,750	-	1,181,813
Charges for services	616,050	-	-	-	-	-	616,050
Special assessments	-	-	-	-	-	7,009	7,009
Miscellaneous	<u>53,264</u>	<u>4,298</u>	<u>-</u>	<u>-</u>	<u>2,549,636</u>	<u>215,174</u>	<u>2,822,372</u>
Total receipts	<u>2,983,612</u>	<u>588,986</u>	<u>209,724</u>	<u>848,682</u>	<u>3,054,123</u>	<u>440,061</u>	<u>8,125,188</u>
Disbursements:							
Operating:							
Public safety	1,818,184	-	-	-	-	4,271	1,822,455
Public works	482,062	526,952	-	-	-	-	1,009,014
Culture and recreation	852,015	-	-	-	-	84,851	936,866
Community and economic development	62,511	-	-	-	-	860	63,371
General government	990,627	-	2,778	-	-	8,358	1,001,763
Debt service	-	-	42,729	906,648	-	-	949,377
Capital projects	-	-	-	-	6,275,982	-	6,275,982
Total disbursements	<u>4,205,399</u>	<u>526,952</u>	<u>45,507</u>	<u>906,648</u>	<u>6,275,982</u>	<u>98,340</u>	<u>12,058,828</u>
Excess (deficiency) of receipts over disbursements	<u>(1,221,787)</u>	<u>62,034</u>	<u>164,217</u>	<u>(57,966)</u>	<u>(3,221,859)</u>	<u>341,721</u>	<u>(3,933,640)</u>
Other financing sources (uses):							
Bond proceeds	-	-	-	-	3,466,750	-	3,466,750
Operating transfers in (out)	<u>672,486</u>	<u>(40,021)</u>	<u>(292,520)</u>	<u>20,481</u>	<u>-</u>	<u>(392,624)</u>	<u>(32,198)</u>
Total other financing sources (uses)	<u>672,486</u>	<u>(40,021)</u>	<u>(292,520)</u>	<u>20,481</u>	<u>3,466,750</u>	<u>(392,624)</u>	<u>3,434,552</u>
Net change in cash balances	(549,301)	22,013	(128,303)	(37,485)	244,891	(50,903)	(499,088)
Cash balances beginning of year	<u>88,988</u>	<u>732,801</u>	<u>128,303</u>	<u>37,485</u>	<u>4,214,091</u>	<u>1,073,462</u>	<u>6,275,130</u>
Cash balances (deficit) end of year	<u>\$ (460,313)</u>	<u>\$ 754,814</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,458,982</u>	<u>\$ 1,022,559</u>	<u>\$ 5,776,042</u>
Cash Basis Fund Balances							
Reserved:							
Debt service	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved:							
General fund	(460,313)	-	-	-	-	-	(460,313)
Special revenue fund	-	754,814	-	-	-	646,560	1,401,374
Capital projects fund	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,458,982</u>	<u>375,999</u>	<u>4,834,981</u>
Total cash basis fund balances	<u>\$ (460,313)</u>	<u>\$ 754,814</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,458,982</u>	<u>\$ 1,022,559</u>	<u>\$ 5,776,042</u>

See notes to financial statements.

City of Washington
Reconciliation of the Statement of Cash
Receipts, Disbursements and Changes in Cash Balances
to the Statement of Activities and Net Assets -
Governmental Funds
As of and for the Year Ended June 30, 2009

Total governmental funds cash balances (page 5) \$ 5,776,042

Amounts reported for governmental activities in the Statement of Activities and Net Assets are different because:

The Internal Service Fund is used by management to charge the costs of employee health benefits to individual funds. The change on net assets of the Internal Service Fund is reported with governmental activities.

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The Internal Service Fund is used by management to charge the costs of gas to the City's various departments to individual funds. The assets of the Internal Service Fund are included in governmental activities in the Statement of Net Assets.

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Cash basis net assets of governmental activities (page 4) \$ 5,776,042

Net change in cash balances (page 5) \$ (499,088)

Amounts reported for governmental activities in the Statement of Activities and Net Assets are different because:

The Internal Service Fund is used by management to charge the costs of employee health benefits to individual funds. The change on net assets of the Internal Service Fund is reported with governmental activities.

(283)

The Internal Service Fund is used by management to charge the costs of gas to the City's various departments to individual funds. The change on net assets of the Internal Service Fund is reported with governmental activities.

80,441

Change in cash balances of governmental activities (page 4) \$ (418,930)

See notes to financial statements.

City of Washington
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Proprietary Funds
As of and for the Year Ended June 30, 2009

	Enterprise Funds				Internal Service	
	Water Revolving	Sewer Revolving	Sanitation	Total	Health Insurance	Gas Revolving
Operating receipts:						
Charges for services	\$ 953,540	\$ 993,438	\$ 254,410	\$ 2,201,388	\$ -	\$ -
Total operating receipts	<u>953,540</u>	<u>993,438</u>	<u>254,410</u>	<u>2,201,388</u>	<u>-</u>	<u>-</u>
Operating disbursements:						
Business type activities	<u>1,131,021</u>	<u>800,962</u>	<u>282,741</u>	<u>2,214,724</u>	<u>13,278</u>	<u>-</u>
Total operating disbursements	<u>1,131,021</u>	<u>800,962</u>	<u>282,741</u>	<u>2,214,724</u>	<u>13,278</u>	<u>-</u>
Excess (deficiency) of receipts over disbursements	<u>(177,481)</u>	<u>192,476</u>	<u>(28,331)</u>	<u>(13,336)</u>	<u>(13,278)</u>	<u>-</u>
Non-operating receipts (disbursements):						
Miscellaneous	<u>32,767</u>	<u>4,349</u>	<u>-</u>	<u>37,116</u>	<u>37</u>	<u>-</u>
Net non-operating receipts (disbursements)	<u>32,767</u>	<u>4,349</u>	<u>-</u>	<u>37,116</u>	<u>37</u>	<u>-</u>
Operating transfers in (out)	<u>(40,021)</u>	<u>(60,503)</u>	<u>-</u>	<u>(100,524)</u>	<u>12,660</u>	<u>120,062</u>
Net change in cash balances	(184,735)	136,322	(28,331)	(76,744)	(581)	120,062
Cash balances (deficit) beginning of year	<u>191,307</u>	<u>672,928</u>	<u>45,553</u>	<u>909,788</u>	<u>581</u>	<u>(120,062)</u>
Cash balances end of year	<u>\$ 6,572</u>	<u>\$ 809,250</u>	<u>\$ 17,222</u>	<u>\$ 833,044</u>	<u>\$ -</u>	<u>\$ -</u>
Cash Basis Fund Balances						
Unreserved	<u>\$ 6,572</u>	<u>\$ 809,250</u>	<u>\$ 17,222</u>	<u>\$ 833,044</u>	<u>\$ -</u>	<u>\$ -</u>
Total cash basis fund balances	<u>\$ 6,572</u>	<u>\$ 809,250</u>	<u>\$ 17,222</u>	<u>\$ 833,044</u>	<u>\$ -</u>	<u>\$ -</u>

See notes to financial statements.

City of Washington
Reconciliation of the Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
to the Statement of Activities and Net Assets -
Proprietary Funds
As of and for the Year Ended June 30, 2009

Total enterprise funds cash balances (page 7)	\$ 833,044
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Amounts reported for business type activities in the Statement of Activities and Net Assets are different because:

The Internal Service Fund is used by management to charge the costs of employee health benefits to individual funds. The change on net assets of the Internal Service Fund is reported with governmental activities.	-
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The Internal Service Fund is used by management to charge the costs of gas to the City's various departments to individual funds. The assets of the Internal Service Fund are included in business type activities in the Statement of Net Assets.	-
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Cash basis net assets of business type activities (page 4)	\$ <u>833,044</u>
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Net change in cash balances (page 7)	\$ (76,744)
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Amounts reported for business type activities in the Statement of Activities and Net Assets are different because:

The Internal Service Fund is used by management to charge the costs of employee health benefits to individual funds. The change on net assets of the Internal Service Fund is reported with governmental activities.	(298)
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The Internal Service Fund is used by management to charge the costs of gas to various departments to individual funds. The change on net assets of the Internal Service Fund is reported with business type activities.	<u>39,622</u>
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Change in cash balances of business type activities (page 4)	\$ <u>(37,420)</u>
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See notes to financial statements.

City of Washington
Notes to Financial Statements

Note 1. Significant Accounting Policies

The City of Washington (City) is a political subdivision of the State of Iowa located in Washington County. It was first incorporated in 1864 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, culture, recreation, community and economic development, and general government services. The City also provides water and sewer utilities and sanitation services for its citizens.

Reporting Entity

For financial reporting purposes, the City has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City.

These financial statements present the City of Washington (the primary government) and exclude all component units. The component unit discussed below is not included in the City's reporting entity although its operational or financial relationship with the City is significant.

Excluded Component Unit

The Washington Free Public Library Foundation (Foundation) is a component unit of the City of Washington. The Foundation is a non-profit organization created for the purpose of solicitation and collection of funds for the enhancement and financial support of the Washington Free Public Library of Washington, Iowa. The Foundation is governed by a twelve member board. The Foundation meets the definition of a component unit since it raises funds on behalf of the Library. The financial statements of the Foundation have not been audited, and, accordingly, this component unit has not been presented in the accompanying primary government audited financial statements. Complete financial statements (June 30 year end) for the individual component unit can be obtained directly from the Foundation.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Washington County Assessor's Conference Board, Washington County Emergency Management Commission, Washington County Joint E911 Service Board, Washington County Public Safety Committee and Southeast Iowa Multi-County Solid Waste Agency.

City of Washington
Notes to Financial Statements

Note 1. Significant Accounting Policies (continued)

Basis of Presentation

Government-wide Financial Statements - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue Funds:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Urban Renewal Tax Increment Fund is used to account for urban renewal projects financed by tax increment financing.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general long-term debt.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

City of Washington
Notes to Financial Statements

Note 1. Significant Accounting Policies (continued)

The City reports the following major proprietary funds:

The Water Revolving Fund accounts for the operation and maintenance of the City's water system.

The Sewer Revolving Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

The Sanitation Fund accounts for the operation of the City's solid wastes, recycling and yard waste collection systems.

The City also reports the following additional proprietary funds:

The Internal Service Funds are utilized to account for the financing of goods or services purchased by one department of the City and provided to other departments or agencies on a cost reimbursement basis.

Measurement Focus and Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with accounting principles generally accepted in the United States of America.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2009, disbursements exceeded the amounts budgeted in the public safety, culture and recreation, general government, debt service and business type activities functions.

Subsequent Events

The City performed an evaluation of subsequent events through February 4, 2010, which is the date the financial statements were available to be issued. There have been no subsequent events that occurred that would require disclosure or recognition in the financial statements as of June 30, 2009.

Note 2. Cash and Pooled Investments

The City's deposits in banks at June 30, 2009 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

City of Washington
Notes to Financial Statements

Note 2. Cash and Pooled Investments (continued)

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2009, the City had the following investments:

<u>Type</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
U.S. Government Securities	\$ 35,000	\$ 35,000
Stocks	<u>6,009</u>	<u>11,277</u>
Total	<u>\$ 41,009</u>	<u>\$ 46,277</u>

In addition, the City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$5,941,198 pursuant to Rule 2a-7 under the Investment Company Act of 1940 and are not subject to risk categorization.

Interest rate risk - The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the City.

Credit risk - The City's investment in the Iowa Public Agency Investment Trust is unrated.

Note 3. Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 4.10% of their annual covered salary and the City is required to contribute 6.35% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contribution to IPERS for the years ended June 30, 2009, 2008, and 2007 were \$153,841, \$139,717, and \$136,345, respectively, equal to the required contributions for each year.

City of Washington
Notes to Financial Statements

Note 4. Bonds and Notes Payable

Annual debt service requirements to maturity for general obligation bonds, urban renewal tax increment financing revenue bonds and revenue notes are as follows:

Year Ending June 30,	General Obligation Bonds		Urban Renewal Tax Increment Financing (TIF) Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2010	\$ 675,000	\$ 223,904	\$ 94,000	\$ 13,746	\$ 769,000	\$ 237,650
2011	505,000	224,195	68,000	13,443	573,000	237,638
2012	520,000	215,453	70,000	14,435	590,000	229,888
2013	535,000	204,770	73,000	15,676	608,000	220,446
2014	555,000	192,010	45,000	2,419	600,000	194,429
2015-2019	2,560,000	687,833	45,000	2,419	2,605,000	690,252
2020-2024	885,000	370,960	-	-	885,000	370,960
2025-2029	<u>1,115,000</u>	<u>158,970</u>	<u>-</u>	<u>-</u>	<u>1,115,000</u>	<u>158,970</u>
	<u>\$ 7,350,000</u>	<u>\$ 2,278,095</u>	<u>\$ 395,000</u>	<u>\$ 62,138</u>	<u>\$ 7,745,000</u>	<u>\$ 2,340,233</u>

The Code of Iowa requires principal and interest on general obligation bonds be paid from the Debt Service Fund.

Urban Renewal Tax Increment Financing Revenue Bonds

The urban renewal tax increment financing bonds were issued for the purpose of defraying a portion of the costs of carrying out urban renewal projects of the City. The notes and bonds are payable solely from the income and proceeds of the Urban Renewal Tax Increment Fund and the taxes to be paid into the fund in accordance with Chapter 403.19 of the Code of Iowa. The proceeds of the urban renewal tax increment financing bonds shall be expended only for purposes which are consistent with the plans of the City's urban renewal area. The bonds are not general obligations of the City, however the debt is subject to the constitutional debt limitation of the City. Total principal and interest remaining on the bonds is \$457,138, payable through 2015. For the current year, principal and interest paid, and total TIF receipts were \$69,880 and \$209,724, respectively.

Note 5. Compensated Absences

City employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation payments payable to employees at June 30, 2009, primarily relating to the General Fund is \$168,349 based on rates of pay in effect at June 30, 2009.

City of Washington
Notes to Financial Statements

Note 6. Risk Management

The City of Washington is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 577 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool, fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administration expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 200 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if sufficient, by the subsequent year's member contributions.

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's annual contribution to the Pool for the year ended June 30, 2009 was approximately \$106,159.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability for risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim and \$10,000,000 in aggregate per year. For members requiring specific coverage from \$3,000,000 to \$10,000,000, such excess coverage is also reinsured. Automobile physical damage risks are retained by the Pool up to \$100,000 each accident, each location, with excess coverage reinsured on an individual-member basis. All property risks are also reinsured on an individual-member basis.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total member's equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2009, settled claims have not exceeded the risk pool or reinsurance company coverage since the Pool's inception.

City of Washington
Notes to Financial Statements

Note 6. Risk Management (continued)

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days prior written notice may withdraw from the Pool. Upon withdrawal, payments for all claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their capital contributions. After the sixth year, the member is refunded 100 percent of its capital contributions, however, the refund is reduced by an amount equal to the annual operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The City also carries commercial insurance purchased from other insurers for coverage associated with workmen's compensation and various types of liability insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 7. Related Party Transactions

The City had business transactions between the City and City officials totaling \$8,999 during the year ended June 30, 2009.

Note 8. Commitments and Contingencies

In the normal course of business, the City has various outstanding commitments that are not reflected in the accompanying financial statements. The principal commitments of the City are as follows:

Downtown enhancement project	\$ 800,000
New Library Building project	1,411,035
Seal coat project	85,168
New Sewer plant - engineering & design	<u>1,304,500</u>
	<u>\$ 3,600,703</u>

The City of Washington and the Federal Aviation Administration are participating in the City's airport expansion project which includes a proceeding to condemn a portion of an individual's property. The land acquisition is currently in litigation for the purchase price. The final amount to be paid to the individual cannot be stated with any certainty. The individual is also trying to obtain reimbursement for attorney fees regarding the land acquisition and the range of potential loss is considered to be \$40,000 to \$60,000.

City of Washington
Notes to Financial Statements

Note 9. Industrial Development Revenue Bond

The City has issued a \$2,400,000 elderly housing revenue bond under the provisions of Chapter 419 of the Code of Iowa. The bonds and related interest are payable solely from the tenants of the properties constructed, and the bond principal and interest do not constitute liabilities of the City.

Note 10. Deficit Fund Balance

The General Fund had a deficit balance of \$460,313 at June 30, 2009.

Note 11. Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2009 is as follows:

Transfer to:	
General fund	\$ 672,486
Gas revolving fund	120,062
Health insurance fund	12,659
Water revenue	30,000
Debt service	<u>20,481</u>
	<u>\$ 855,688</u>
Transfer from:	
Water revenue	\$ 70,020
Sewer revenue	60,502
Liability insurance	147,966
Road use	40,021
Employee benefits	170,511
Nonmajor enterprise	74,147
Tax increment financing	<u>292,521</u>
	<u>\$ 855,688</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

Note 12. Operating Leases - Lessor

The City leases farm land around the airport to two individuals. The lease terms are on a year-to-year basis. Rental income for the year ended June 30, 2009 totaled \$33,541.

The City leases hangar space to individuals on a month-to-month basis. Rental income for the year ended June 30, 2009 totaled \$15,820.

City of Washington
Notes to Financial Statements

Note 13. Other Postemployment Benefits (OPEB)

The City implemented GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits other Than Pensions* during the year ended June 30, 2009.

Plan Description - The City operates a single-employer retiree benefit plan which provides medical, prescription drug, dental, and vision benefits for retirees and their spouses. There are 47 active and no retired members in the plan. Participants must be age 55 or older at retirement

The medical, prescription drug, dental and vision coverage is provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which results in an implicit subsidy and an OPEB liability.

Funding Policy - The contribution requirements of plan members are established and may be amended by the City. The City currently finances the retiree benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$497 for single coverage, \$1,243 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2009, the City contributed \$505,594 and plan members eligible for benefits contributed \$72,307 to the plan.

REQUIRED SUPPLEMENTARY INFORMATION

City of Washington
Budgetary Comparison Schedule
of Receipts, Disbursements, and Changes in Balances -
Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds
Required Supplementary Information
Year Ended June 30, 2009

	Governmental Funds <u>Actual</u>	Proprietary Fund Type <u>Actual</u>	Less Funds not Required to be Budgeted	<u>Net</u>	<u>Budgeted Amounts</u>		Final to Net <u>Variance</u>
					<u>Original</u>	<u>Final</u>	
Receipts:							
Property tax	\$ 2,405,145	\$ -	\$ -	\$ 2,405,145	\$ 2,310,423	\$ 2,310,423	\$ 94,722
Tax increment financing collections	209,724	-	-	209,724	98,371	98,371	111,353
Other city taxes	612,723	-	-	612,723	701,998	701,998	(89,275)
Use of money and property	140,156	-	-	140,156	90,000	90,000	50,156
Licenses and permits	130,196	-	-	130,196	70,551	70,551	59,645
Intergovernmental	1,181,813	-	-	1,181,813	672,905	672,905	508,908
Charges for service	616,050	2,201,388	-	2,817,438	2,825,622	2,825,622	(8,184)
Special assessments	7,009	-	-	7,009	-	-	7,009
Miscellaneous	<u>2,822,372</u>	<u>37,153</u>	<u>37</u>	<u>2,859,488</u>	<u>71,294</u>	<u>71,294</u>	<u>2,788,194</u>
Total receipts	<u>8,125,188</u>	<u>2,238,541</u>	<u>37</u>	<u>10,363,692</u>	<u>6,841,164</u>	<u>6,841,164</u>	<u>3,522,528</u>
Disbursements:							
Public safety	1,822,455	-	-	1,822,455	1,384,722	1,759,722	(62,733)
Public works	1,009,014	-	-	1,009,014	1,088,634	1,338,634	329,620
Culture and recreation	936,866	-	-	936,866	770,138	770,138	(166,728)
Community and economic development	63,371	-	-	63,371	79,898	79,898	16,527
General government	1,001,763	-	-	1,001,763	788,660	818,660	(183,103)
Debt service	949,377	-	-	949,377	886,933	886,933	(62,444)
Capital projects	6,275,982	-	-	6,275,982	-	6,780,000	504,018
Business type activities	<u>-</u>	<u>2,228,002</u>	<u>13,278</u>	<u>2,214,724</u>	<u>2,079,210</u>	<u>2,079,210</u>	<u>(135,514)</u>
Total disbursements	<u>12,058,828</u>	<u>2,228,002</u>	<u>13,278</u>	<u>14,273,552</u>	<u>7,078,195</u>	<u>14,513,195</u>	<u>239,643</u>
Excess (deficiency) of receipts over disbursements	(3,933,640)	10,539	(13,241)	(3,909,860)	(237,031)	(7,672,031)	3,762,171
Other financing sources (uses)	<u>3,434,552</u>	<u>32,198</u>	<u>132,722</u>	<u>3,334,028</u>	<u>(698,969)</u>	<u>6,736,031</u>	<u>(3,402,003)</u>
Net change in cash balances	(499,088)	42,737	119,481	(575,832)	(936,000)	(936,000)	360,168
Cash balances beginning of year	<u>6,275,130</u>	<u>790,307</u>	<u>(119,481)</u>	<u>7,184,918</u>	<u>3,153,629</u>	<u>6,307,258</u>	<u>877,660</u>
Cash balances end of year	<u>\$ 5,776,042</u>	<u>\$ 833,044</u>	<u>\$ -</u>	<u>\$ 6,609,086</u>	<u>\$ 2,217,629</u>	<u>\$ 5,371,258</u>	<u>\$ 1,237,828</u>

See accompanying independent auditor's report.

City of Washington
Notes to Required Supplementary Information - Budgetary Reporting

The budgetary comparison is presented as Required Supplementary Information in accordance with GASB Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund or fund type. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, a budget amendment increased budgeted disbursements by \$7,435,000. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2009, disbursements exceeded the amounts budgeted in public safety, culture and recreation, general government, debt service and business type activities functions.

City of Washington
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Nonmajor Governmental Funds
Year Ended June 30, 2009

	<u>Special Revenue</u>						
	<u>Housing Rehabilitation</u>	<u>Employee Benefits</u>	<u>Liability Insurance</u>	<u>Special Assessment Bonds/Notes</u>	<u>Trusts</u>	<u>Capital Reserves</u>	<u>Total</u>
Receipts:							
Property tax	\$ -	\$ 136,341	\$ 58,397	\$ -	\$ -	\$ -	\$ 194,738
Use of money and property	-	-	-	-	23,140	-	23,140
Special assessments	-	-	-	7,009	-	-	7,009
Miscellaneous	-	-	-	-	158,174	57,000	215,174
Total receipts	<u>-</u>	<u>136,341</u>	<u>58,397</u>	<u>7,009</u>	<u>181,314</u>	<u>57,000</u>	<u>440,061</u>
Disbursements:							
Public safety	-	-	-	-	-	4,271	4,271
Culture & recreation	-	-	-	-	42,123	42,728	84,851
Community and economic development	-	-	-	-	860	-	860
General government	-	-	-	-	-	8,358	8,358
Total disbursements	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>42,983</u>	<u>55,357</u>	<u>98,340</u>
Excess of receipts over disbursements	<u>-</u>	<u>136,341</u>	<u>58,397</u>	<u>7,009</u>	<u>138,331</u>	<u>1,643</u>	<u>341,721</u>
Other financing sources (uses):							
Operating transfers (out)	<u>-</u>	<u>(170,511)</u>	<u>(147,966)</u>	<u>-</u>	<u>(74,147)</u>	<u>-</u>	<u>(392,624)</u>
Net change in cash balances	-	(34,170)	(89,569)	7,009	64,184	1,643	(50,903)
Cash balances beginning of year	<u>48,288</u>	<u>34,170</u>	<u>89,569</u>	<u>27,982</u>	<u>499,097</u>	<u>374,356</u>	<u>1,073,462</u>
Cash balances end of year	<u>\$ 48,288</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 34,991</u>	<u>\$ 563,281</u>	<u>\$ 375,999</u>	<u>\$ 1,022,559</u>
Cash Basis Fund Balances							
Unreserved:							
Special revenue funds	\$ 48,288	\$ -	\$ -	\$ 34,991	\$ 563,281	\$ -	\$ 646,560
Capital projects funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>375,999</u>	<u>375,999</u>
Total cash basis fund balances	<u>\$ 48,288</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 34,991</u>	<u>\$ 563,281</u>	<u>\$ 375,999</u>	<u>\$ 1,022,559</u>

See accompanying independent auditor's report.

**City of Washington
Statement of Indebtedness
Year Ended June 30, 2009**

<u>Obligation</u>	<u>Date of Issuance</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>	<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
General obligation bonds:									
Essential corporate purpose	06/01/99	3.80-4.25%	\$ 1,900,000	\$ 225,000	\$ -	\$ 225,000	\$ -	\$ 9,562	\$ -
Capital loan note	06/17/09	1.25-4.80%	3,500,000	-	3,500,000	-	3,500,000	-	-
Capital loan note	06/18/08	2.50-4.00%	4,355,000	<u>4,355,000</u>	<u>-</u>	<u>505,000</u>	<u>3,850,000</u>	<u>139,472</u>	<u>-</u>
Total				<u>\$ 4,580,000</u>	<u>\$ 3,500,000</u>	<u>\$ 730,000</u>	<u>\$ 7,350,000</u>	<u>\$ 149,034</u>	<u>\$ -</u>
Revenue Notes:									
Urban Renewal Series 2004	01/12/04	3.70%	\$ 190,000	\$ 165,000	\$ -	\$ 50,000	\$ 115,000	\$ 5,165	\$ -
Urban Renewal Series 2006	09/15/06	5.375%	280,000	<u>280,000</u>	<u>-</u>	<u>-</u>	<u>280,000</u>	<u>14,715</u>	<u>-</u>
Total				<u>\$ 445,000</u>	<u>\$ -</u>	<u>\$ 50,000</u>	<u>\$ 395,000</u>	<u>\$ 19,880</u>	<u>\$ -</u>

See accompanying independent auditor's report.

**City of Washington
Bond Maturities
June 30, 2009**

General Obligation Bonds:

<u>Year Ending June 30,</u>	<u>Interest Rate</u>	<u>Capital Loan Note June 18, 2008 Amount</u>	<u>Interest Rate</u>	<u>Capital Loan Note June 17, 2009 Amount</u>	<u>Total</u>
2010	2.75%	\$ 365,000	1.25%	\$ 310,000	\$ 675,000
2011	3.00%	380,000	1.60%	125,000	505,000
2012	3.15%	390,000	1.90%	130,000	520,000
2013	3.30%	405,000	2.20%	130,000	535,000
2014	3.45%	425,000	2.45%	130,000	555,000
2015	3.60%	440,000	2.70%	130,000	570,000
2016	3.75%	460,000	3.00%	130,000	590,000
2017	3.90%	480,000	3.20%	130,000	610,000
2018	4.00%	505,000	3.40%	130,000	635,000
2019		-	3.60%	155,000	155,000
2020		-	3.80%	160,000	160,000
2021		-	4.00%	170,000	170,000
2022		-	4.10%	175,000	175,000
2023		-	4.20%	185,000	185,000
2024		-	4.30%	195,000	195,000
2025		-	4.40%	205,000	205,000
2026		-	4.50%	215,000	215,000
2027		-	4.60%	230,000	230,000
2028		-	4.70%	245,000	245,000
2029		-	4.80%	220,000	220,000
		<u>\$ 3,850,000</u>		<u>\$ 3,500,000</u>	<u>\$ 7,350,000</u>

Urban Renewal Tax Increment Financing (TIF) Revenue Bonds:

<u>Year Ending June 30,</u>	<u>Interest Rate</u>	<u>Series 2004 January 12, 2004 Amount</u>	<u>Interest Rate</u>	<u>Series 2006 September 15, 2006 Amount</u>	<u>Total</u>
2010	3.70%	\$ 25,000	5.375%	\$ 69,000	\$ 94,000
2011	3.70%	30,000	5.375%	38,000	68,000
2012	3.70%	30,000	5.375%	40,000	70,000
2013	3.70%	30,000	5.375%	43,000	73,000
2014		-	5.375%	45,000	45,000
2015		-	5.375%	45,000	45,000
		<u>\$ 115,000</u>		<u>\$ 280,000</u>	<u>\$ 395,000</u>

See accompanying independent auditor's report.

City of Washington
Schedule of Receipts By Source and Disbursements By Function -
All Governmental Funds

	Year Ending June 30,						
	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Receipts:							
Property tax	\$ 2,405,145	\$ 2,350,999	\$ 2,365,634	\$ 2,345,992	\$ 2,367,998	\$ 2,338,456	\$ 2,305,132
Tax increment financing	209,724	104,729	113,794	101,008	94,486	74,052	52,171
Other city taxes	612,723	709,116	671,072	455,213	545,406	388,387	223,692
Use of money and property	140,156	134,280	195,990	69,611	53,880	45,700	37,740
Licenses and permits	130,196	109,264	119,148	154,770	99,077	62,260	82,189
Intergovernmental	1,181,813	1,220,791	1,165,904	855,371	835,138	867,115	1,369,261
Charges for services	616,050	518,170	399,797	218,106	207,144	210,226	114,092
Special assessments	7,009	12,559	14,963	32,849	17,801	24,600	16,803
Miscellaneous	<u>2,822,372</u>	<u>704,243</u>	<u>705,606</u>	<u>113,484</u>	<u>205,480</u>	<u>118,839</u>	<u>792,021</u>
Total	<u>\$ 8,125,188</u>	<u>\$ 5,864,151</u>	<u>\$ 5,751,908</u>	<u>\$ 4,346,404</u>	<u>\$ 4,426,410</u>	<u>\$ 4,129,635</u>	<u>\$ 4,993,101</u>
Disbursements:							
Operating:							
Public safety	\$ 1,822,455	\$ 1,503,628	\$ 1,355,269	\$ 1,561,645	\$ 1,425,479	\$ 1,128,631	\$ 1,851,231
Public works	1,009,014	1,544,143	1,405,445	691,540	559,650	377,117	725,351
Culture and recreation	936,866	913,776	819,720	687,928	620,817	670,587	1,030,803
Community and economic development	63,371	98,868	342,321	125,114	-	32,679	67,527
General government	1,001,763	878,786	919,301	846,315	736,814	569,067	536,329
Debt service	949,377	909,786	941,246	918,085	923,092	921,882	1,026,731
Capital projects	<u>6,275,982</u>	<u>644,339</u>	<u>248,737</u>	<u>291,636</u>	<u>234,494</u>	<u>1,628,901</u>	<u>257,913</u>
Total	<u>\$ 12,058,828</u>	<u>\$ 6,493,326</u>	<u>\$ 6,032,039</u>	<u>\$ 5,122,263</u>	<u>\$ 4,500,346</u>	<u>\$ 5,328,864</u>	<u>\$ 5,495,885</u>

See accompanying independent auditor's report.



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**Independent Auditor's Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

Honorable Mayor and
Members of the City Council

We have audited the accompanying primary financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Washington (City), as of and for the year ended June 30, 2009, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated February 4, 2010. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies, including deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with other comprehensive basis of accounting such that there is more than a remote likelihood a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe all of them to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2009 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the City's responses, we did not audit the City's responses and accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City and other parties to whom the City may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

CPA Associates PC

February 4, 2010

City of Washington
Schedule of Findings and Questioned Costs
Year Ended June 30, 2009

Part I: Findings Related to the Financial Statements

MATERIAL WEAKNESSES

I-A-09 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling a transaction from its inception to its completion. Management has not separated incompatible activities of personnel, thereby creating risks to the safeguarding of cash and accuracy of the financial statements.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the City Council and management should continue to provide oversight and direction based upon their direct knowledge of the City's operations and day-to-day contact with employees to control and safeguard assets.

Response - We will consider this.

Conclusion - Response acknowledged. The City could segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

I-B-09 Reconciliation of Utility Billings, Collections and Delinquencies - Utility billings, collections and delinquent accounts were not reconciled throughout the year.

Recommendation - Procedures should be established to reconcile utility billings, collections and delinquencies for each billing period and to reconcile collections to deposits. The Council or a Council-designated independent person should review the reconciliation and monitor delinquencies.

Response - The City will establish and implement procedures to reconcile utility billings, collections and delinquencies for each billing period and resolve any variances in a timely manner.

Conclusion - Response accepted.

I-C-09 Reconciliation of Cemetery Billings, Collections and Delinquencies - Cemetery billings, collections and delinquent accounts were not reconciled throughout the year.

Recommendation - Procedures should be established to reconcile cemetery billings, collections and delinquencies for each billing period and to reconcile collections to deposits. The Council or a Council-designated independent person should review the reconciliation and monitor delinquencies.

Response - The City will establish and implement procedures to reconcile cemetery billings, collections and delinquencies for each billing period and resolve any variances in a timely manner.

Conclusion - Response accepted.

City of Washington
Schedule of Findings and Questioned Costs
Year Ended June 30, 2009

I-D-09 **Financial Reporting** - The City Council and management share the ultimate responsibility for the City's financial statements. The City has not implemented procedures, to the degree necessary, to perform a review and assume responsibility to the City's financial statements and related disclosures to provide a high level of assurance that potential omissions or other errors that are less than material, but more than inconsequential, would be identified and corrected. A monthly bank to book reconciliation was not prepared to support month end cash balances. Certain cash receipts and disbursements were not recorded in the City's books. Such a system does not permit the preparation of accurate and reliable reports. As a result we noted the following:

Revenues not recorded:	
Bond proceeds	\$3,466,750
IPAIT interest	4,285
Washington County property taxes	84,699
Road Use tax	55,567
Local Option Sales tax	47,094
Liquor license	843
Library Foundation Donation	400,000
Riverside Casino revenue	90,440
Revenues not recorded in April	160,497
Pool revenue	40,388
Money market interest	3,015
Disbursements not recorded:	
Hartford life insurance	16,868

Recommendation - The monthly financial reports should include a bank to book reconciliation to support the month end cash balances. The City should properly record all receipts and disbursements.

Response - The City will adopt a policy to include a bank to book reconciliation of month end cash balances to assure that all transactions are recorded in the City's books.

Conclusion - Response accepted.

I-E-09 **Credit Cards** - The City has credit cards for use by various employees while on City business. The City has not adopted a formal policy to regulate the use of credit cards and to establish procedures for the proper accounting of credit card charges.

Recommendation - The City should adopt a formal written policy regulating the use of City credit cards. The policy, at a minimum, should address who controls credit cards, who is authorized to use credit cards and for what purposes, as well as the types of supporting documentation required to substantiate charges.

Response - The City will review procedures and guidelines and establish a written policy.

Conclusion - Response accepted.

City of Washington
Schedule of Findings and Questioned Costs
Year Ended June 30, 2009

I-F-09 Preparation of Financial Statements - The City does not have an internal control system designed to provide for the preparation of the financial statements in accordance with an other comprehensive basis of accounting, nor has management identified risks related to the preparation of reliable financial statements and as a result has failed to design effective controls over the preparation of the financial statements to prevent or detect material misstatements. Therefore, as auditors, we were requested to draft the financial statements and accompanying notes to the financial statements. This circumstance is not unusual for a governmental entity similar in population to the City. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Recommendation - We recognize that with a limited number of office employees, preparation of the financial statements is difficult. However, we recommend that City officials continue reviewing operating procedures in order to obtain the maximum internal control possible under the circumstances.

Response - The City will continue to review and monitor procedures currently in place and evaluate the risks to be accepted in preparation of the financial statements.

Conclusion - Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

Part II: Other Findings Related to Statutory Reporting

II-A-09 Certified Budget - Disbursements during the year ended June 30, 2009 exceeded the amounts budgeted in public safety, culture and recreation, general government, debt service and business type activities. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation - The budget should have been amended in sufficient amounts in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - The budget will be amended in the future, if applicable.

Conclusion - Response accepted.

II-B-09 Questionable Disbursements - We noted no disbursements that did not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

II-C-09 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

City of Washington
Schedule of Findings and Questioned Costs
Year Ended June 30, 2009

II-D-09 Business Transactions - Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title, and Business Connection</u>	<u>Transactions</u>	<u>Amount</u>
Mike Roth, Council Member Employee, Sitler's Supplies, Inc	Supplies	\$ 318
Russ Ziegrowsky, Council Member Employee, Hy-Vee	Supplies	\$ 1,624
Mike Roe, Airport Commission Member Owner, Roe Heating and Hardware	Repairs	\$ 7,057

In accordance with Chapter 362.5(11) of the Code of Iowa, the transactions with the Council Members do not appear to represent conflicts of interest since the total transactions with each individual were less than \$2,500 during the fiscal year. The transaction with the Airport Commission member does appear to represent a conflict of interest since it was not entered into through a competitive bidding in accordance with Chapter 362.5(4) of the Code of Iowa.

Recommendation - The City should consult legal counsel to determine the disposition of this matter.

Response - The City will proceed with a competitive bidding process in the future.

Conclusion - Response accepted.

II-E-09 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

II-F-09 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.

The Council went into closed session on November 15, 2008 and December 12, 2008. However, the minutes record did not document the specific information regarding the closed session as required by Chapter 21 of the Code of Iowa, commonly known as the open-meetings law.

Recommendation - The City should comply with Chapter 21 of the Code of Iowa.

Response - We will comply with the Code requirements for closed sessions.

Conclusion - Response accepted.

II-G-09 Bonds and Revenue Notes - The City has complied with the revenue bond and note resolutions.

City of Washington
Schedule of Findings and Questioned Costs
Year Ended June 30, 2009

II-H-09 Deposits and Investments - During the audit it was discovered the City does not have a written investment policy that complies with the provision of Chapter 12B.10B of the Code of Iowa.

Recommendation - The City should adopt a written investment policy that complies with the provision of Chapter 12B.10B of the Code of Iowa.

Response - We will consider this.

Conclusion - Response accepted.

II-I-09 Financial Condition - At June 30, 2009, General fund had a deficit balance of \$460,313.

Recommendation - The City should monitor the progress of the collections and expenses in this fund and review the control procedures throughout the period so the collections cover the expenses in this fund.

Response - We will consider this.

Conclusion - Response accepted.

II-J-09 Local Option Sales Tax - Local option sales tax collections were posted directly to the General Fund rather than in a Special Revenue Fund.

Recommendation - The City should establish a Special Revenue Fund for local option sales tax receipts, disbursements and balances and to demonstrate compliance with the City's referendum for the use of the tax.

Response - We will do this.

Conclusion - Response accepted.

II-K-09 Separately Maintained Records - The City of Washington Volunteer Fire Department and Municipal Band maintain separate checking accounts for donations, grants and fund raising activities. These accounts are separate from the City's accounts allowing transactions to go unrecorded. Accordingly, certain donations and expenditures from these accounts are not being appropriately included on the City's financial statements. The expenditures may not meet the requirements of public purpose and may not be appropriately included within the budget as required by the Code of Iowa.

Recommendation - Chapter 384.20 of the Code of Iowa states, in part, "A City shall keep accounts which show an accurate and detailed statement of all public funds collected, received or expended for any city purpose." For better accountability, financial and budgetary control, the financial activity and balances of all City accounts should be included in the City's accounting records and reported to the Council on a monthly basis.

Response - The City, the Volunteer Fire Department and Municipal Band should ensure that procedures are in place to document all receipts and expenditures in accordance with the Code of Iowa.

Conclusion - Response accepted.